NYNEX Government Affairs
1300 I Street NW Suite 400 West Washington DC 20005
202 336 7911

G R Evans
Vice President
Federal Regulatory Affairs

EX PARTE OR LATE FILED

NYNEX

April 25, 1997

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

RE: CC Docket 96-45 and 96-262

Dear Mr. Caton:

On April 24, 1997, Mr. F. Gumper and I, representing the NYNEX Telephone Companies, and Ms. P. Koch and Mr. E Lowry of Bell Atlantic met with Mr. D. Gonzales and Ms. G. McGuire of Commissioner Chong's office. The purpose of the meeting was to discuss the impacts of pending access reform and universal service proposals. The following issues were discussed:

The FCC should adopt the Joint Board's recommendation of $2.25 Billion per year for the education component of the high cost fund, which allows for the rollover of any portion that was not used in any year. The cash management of the fund should recognize, however, that demands on the fund would not instantly be at the total fund level. Consequently, in the first year the money collected from the industry should reflect the anticipated actual disbursements to schools and libraries.

The NYNEX and Bell Atlantic representatives expressed concerns with the potential impacts of access restructuring on business customers. First, the FCC was asked to recognize that states would likely follow the FCC's approach in access reform, thus causing much larger impacts, especially on business customers, than if only interstate access charges were changed. Second, they described the competitive conditions in the large business markets in which both federal and state jurisdiction services are included in contracts resulting from competitive bidding processes, and most of these contracts are for a fixed amount. Third, another problem is that many large customers use either NYNEX-provided, Bell Atlantic-provided or a competitive special access facility to transport traffic directly to an interexchange carrier's point of presence. This arrangement does not rely on presubscription to a particular interexchange carrier, and consequently a presubscribed line charge imputed to these situations would not result in actual additional revenue being collected.

The FCC was asked to evaluate carefully whether a change in the existing price cap productivity factors is necessary. It was the NYNEX and Bell Atlantic representatives view that the new fund requirements could be funded without a change in the price cap productivity factors. If, however, it was deemed that a change was necessary, the FCC should recognize that there are local exchange carriers whose current earnings are below the currently authorized levels. These companies should not be adversely affected, and the FCC should therefore require that any adjustment should not take a company's earnings below the 10.25% earnings floor currently established in the existing price cap plan. The attached materials were used in this portion of the discussion.

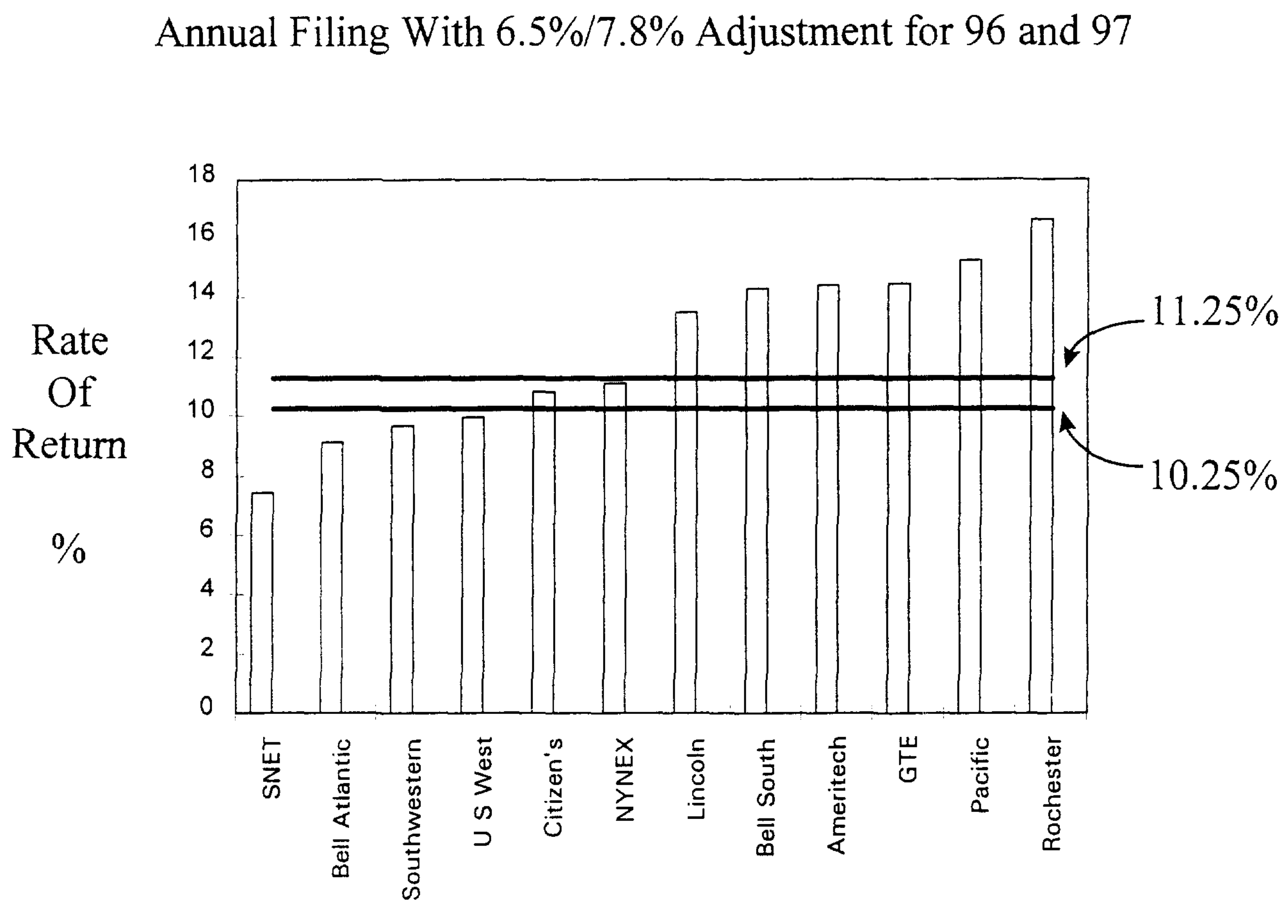
Any questions on the above should be directed to me at either the address or telephone number shown above.

Sincerely,

Attachments

cc: Mr. D. Gonzalez
Ms. G. McGuire

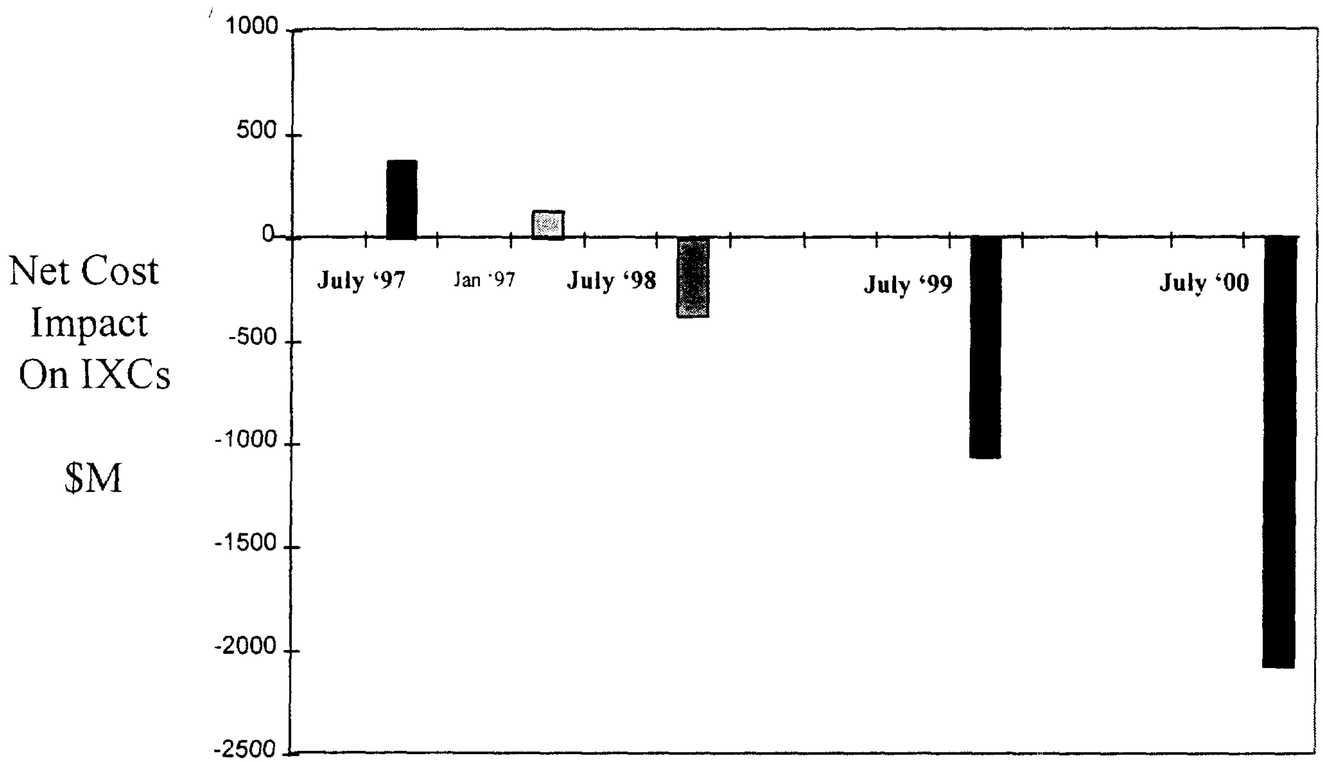
Price Cap Adjustments Should Be Subject To An Earnings Floor



Sound public policy would not push earnings below a level the Commission has already determined to be a floor (10.25%). If the price cap is lowered as if an increase in the productivity factor had been in effect in both 1996 and 1997, in no event should any adjustment take a company's earnings below the 10.25% earnings floor.

Chart 2

Long Distance Carriers Benefit At 5.3% Productivity Offset



* - Excludes benefits from demand stimulation

With the current 5.3% offset, the Commission could fully fund universal service obligations without triggering the need for any toll rate increases by the long distance carriers